As the most sparsely populated nation in the world, Mongolia has tremendous potential for growth. With more than 6,000 known mineral deposits of eighty different minerals, it has the potential to become a major player in the global commodities markets with its rich gold, copper, zinc, uranium, coal, molybdenum and oil reserves. Though it has many means at its disposals, Mongolia lacks even the most basic infrastructure developed nations have, such as "roads, water, sewage systems, electricity and central heating" (Liu 2013). As a developing nation, Mongolia also has a very small amount of capital, due to which it cannot effectively cultivate the natural resources it does have at its disposal in vast quantities. This paper will explore the implications of the Solow Growth Model on the Mongolian economy, to suggest ways in which it can assure economic growth and sustain such growth in the long run.

As a developing nation, Mongolia will experience catch-up growth, which is when a country without a lot of capital but good institutions will have a high marginal product of capital. That is, a large increase in output or GDP from the addition of one unit of capital. In that case, small investments pay big rewards and economic growth will be rapid.

Good institutions such as property rights, a dependable legal system, competitive and open markets, political stability and honest government all create incentives to invest in physical and human capital. The implementation of such institutions also creates new technological knowledge and organizes factors of production to be highly productive. It is important that Mongolia develop these institutions, so that potential investors can feel that their investments in capital will be profitable and safe within reason.

As a young nation, Mongolia is changing politically and doing so drastically. As it adopted democracy in the 1990s, a democratic approach to governance is still a new concept to Mongolians (Franquelli 2013). Though Mongolia has experienced an increase in "political

engagement… the [Mongolian] electorate wants to see stability and consistency brought to a political system of which it has historically been very critical." Such development, though positive, might deter and citizens within Mongolia from pursuing innovation and productivity. This is because few people want to be entrepreneurs if they are afraid the government will steal their wealth, or if they fear the collapse of political systems. This fear and anxiety over government stability disincentivize entrepreneurs and even potential investors from engaging in activities that increase GDP.

Once the Mongolian government solidifies its political platform, it will have eager and willing investors and entrepreneurs, who can, as aforementioned, invest. The increase in investment is graphically shown in figure 1.

As seen in the graph, an increase in investment will lead to an upward shift of the investment curve to I_2 which will in turn lead to an increase in output, or GDP. As also shown in the graph, the increase in the rate of investment also increases the steady state output to KSS_2. This is because the capital stock determines output level. The further away a country's capital stock is from its steady state output, the more rapidly it will grow. As a developing nation, Mongolia is currently far away from its steady state output, so an increase in investment will further distance it from its new and increase steady state output.

However, an increase in capital goods, through investment, can only catalyze growth for so long. Ultimately, Mongolia will need better ideas, or technology to drive long-run economic growth. This is because of the iron- clad logic of the law of diminishing marginal returns, which states that increases in capital (K) produce less output the more K you add. Simply, output (Y) increases as K increases, but at a decreasing rate. After all, at some point so much capital will be depreciating that investment would just cover capital stock; and if capital stock stops growing,

GDP stops growing. To combat this, Mongolia will need to foster better ideas and innovation so as to produce more output with the same amount of input. The effects of an increase in technology are seen in figure 2.

Overall, Mongolia can really capitalize on the natural resources it has. However, it must first stabilize its government so that individuals can feel assured that their investment is worthwhile and will yield sustainable profits. After the gradual introduction of basic technology to increase capital stock, the implementation of better ideas and advanced technologies will sustain the growth well past the catch- up phase.

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